

**BEFORE THE COMMISSIONER OF COMMERCE AND INSURANCE FOR THE  
STATE OF TENNESSEE**

**TENNESSEE SECURITIES DIVISION,**

**Petitioner,**

**v.**

**BASIN OIL AND GAS CORPORATION,**

**MICHAEL SMITH, and**

**THOMAS WATKINS,**

**Respondents.**

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**No.: 01-006**

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**CONSENT ORDER**

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The Tennessee Securities Division ("Division"), Petitioner, and Basin Oil and Gas Corporation, and Thomas Watkins (hereinafter collectively referred to as the "Respondents") agree to the entry of this Consent Order in accordance with the Tenn. Code Ann. § 48-2-116 of the Tennessee Securities Act of 1980, as amended, Tenn. Code Ann. §§ 48-2-101, *et seq.*, which states that the Commissioner of Commerce and Insurance ("Commissioner") from time to time may make such orders as are necessary to carry out the provisions of the Act.

**GENERAL STIPULATIONS**

It is expressly understood by all parties that this Consent Order is subject to the Commissioner's acceptance and has no force and effect until such acceptance is evidenced by the entry of the Commissioner.

This Consent Order is executed by the Respondents for the purpose of avoiding further administrative action with respect to this cause. Furthermore, should this Consent Order not be accepted by the Commissioner, it is agreed that presentation to and consideration of this Consent

Order by the Commissioner shall not unfairly or illegally prejudice the Commissioner from further participation or resolution of these proceedings.

3 Respondent fully understands that this Consent Order will in no way preclude additional proceedings by the Commissioner against the Respondents for acts or omissions not specifically addressed in this Consent Order for facts and/or omissions that do not arise from the facts or transactions herein addressed, nor does it preclude additional proceedings by the Commissioner against the Respondents based upon these facts or transactions herein addressed by some other Division of the Commissioner.

4 Respondents expressly waive all further procedural steps, and expressly waive all rights to seek judicial review of or to otherwise challenge or contest the validity of the Consent Order, the stipulations and imposition of discipline contained herein, and the consideration and entry of said Consent Order by the Commissioner.

5. The Tennessee Securities Act of 1980, as amended, Tenn. Code Ann. §§ 48-2-101 *et seq.* (“Act”) places the responsibility for the administration of the Act on the Commissioner. The Division is the lawful agent through which the Commissioner discharges this responsibility. Tenn. Code Ann. § 48-2-115

#### **FINDINGS OF FACT**

6. Basin Oil & Gas Corporation (“Basin”), is a Kentucky corporation located at 207 E. Reynolds Road, Lexington, Kentucky 40517. Basin has never registered with the Division as an issuer-dealer

**7.** Thomas Watkins ("Watkins") is a citizen and resident of the State of Kentucky. Watkins is the President of Basin. Watkins has never registered with the Division as a broker-dealer, an agent of a broker-dealer or as an investment adviser.

**8.** Michael Smith ("Smith") is a resident and citizen of the State of Kentucky whose address is located at 1000 East Lexington Ave., Danville, Kentucky 40422. Smith is not a party to this Consent Order.

**9.** The Respondents have engaged in the offer and sale of undivided fractional interests in oil in this State without registration as an issuer-dealer and without first having registered said undivided fractional interests in oil with the Division. Specifically, the Respondents sold undivided fractional interests in oil wells located in Overton County, Tennessee to two (2) individuals, Richard Ward ("Ward") and Robert G. Machala ("Machala").

**10.** Ward is a citizen and resident of the State of Tennessee and Machala is a citizen and resident of the State of Michigan. Ward invested a total of eleven thousand six hundred twenty-five dollars (\$11,625.00) in the undivided fractional interests in oil wells sold by Basin. Machala invested a total of nine thousand three hundred seventy dollars (\$9,375.00) in the undivided fractional interests in oil wells sold by Basin.

### **CONCLUSIONS OF LAW**

Pursuant to Tennessee Code Annotated § 48-2-115(a), the responsibility for the administration of the Act is upon the Commissioner. The Division is the lawful agent through which the Commissioner discharges this responsibility.

**12.** Pursuant to Tennessee Code Annotated § 48-2-116, the Commissioner may make, promulgate, amend, and rescind such orders as are necessary to carry out the provisions of this Act

and that such order is in the public interest, necessary for the protection of investors and consistent with the purposes fairly intended by the policy and provision of the Act.

13. Tennessee Code Ann. § 48-2-110(f)(1) states, in pertinent part, that any person who is included in the definition of “issuer” by virtue of § 48-2-102(8)(C) shall register as an issuer-dealer. Tenn. Code Ann. § 48-2-102(8)(C) defines an issuer as every person who issues any security, except that with respect to a fractional undivided interest in oil, gas, or other mineral rights, “issuer” means the owner of such right or of an interest in such right (whether whole or fractional) who creates fractional interests therein for the purpose of sale.

14. Tennessee Code Ann. § 48-2-104 states, in pertinent part, that it is unlawful for any person to sell any security in this state unless (1) it is registered under this part; (2) the security or transaction is exempted under § 48-2-103; or (3) the security is a covered security.

15. Based upon the findings of fact cited above and the conclusions of law contained herein, the Commissioner considers the actions of the Respondents to be in violation of Tenn. Code Ann. §§ 48-2-104 and 10(f) and to provide grounds for an order necessary to carry out the provisions of the Act.

16. Respondents admit the general stipulations, findings of fact and conclusions of law contained herein and hereby also acknowledge the Commissioner’s authority to administer said statute and concede that the Commissioner’s interpretation of the statute is reasonable and enforceable. Therefore, Respondents, in order to avoid any further expenses or costs associated with litigating this matter, hereby desire to enter into this Consent Order.

## **ORDER**

**NOW, THEREFORE**, on the basis of the foregoing, and the waiver by Respondents of their rights to a hearing and appeal under the Act and Tennessee's Uniform Administrative Procedures Act, Tennessee Code Ann. §§ 4-5-101 *et seq.*, and the admission by the Respondents of the jurisdiction of the Commissioner, the Commissioner finds that the Respondents have agreed to the entry of this Order and that this Order is appropriate, in the public interest and necessary for the protection of investors.

**IT IS ORDERED**, pursuant to Tennessee Code Ann. § 48-2-116 of the Act that:

The Respondents shall not offer or sell undivided fractional interests in oil, gas or other mineral interests in this State until such time as the Respondents are appropriately registered with the Division to offer or sell same, as provided at Tenn. Code Ann. § 48-2-110(f) *et seq.*

2. The Respondents shall not offer or sell undivided fractional interests in oil, gas or other mineral interests in this State until such time as the securities are appropriately registered with the Division to offer or sell same, as provided at Tenn. Code Ann. § 48-2-104 *et seq.*

3. The Respondents shall make rescission to Ward, at his address of 1224 Brocks Chapel, Greenfield, Tennessee 38230, in the amount of eleven thousand six hundred twenty-five dollars (\$11,625.00). Such rescission by the Respondents shall be made payable to Ward by certified check drawn from an FDIC-insured bank or savings and loan depository and shall be delivered via certified mail to Ward at the address listed above within three (3) business days of the date of the entry of the Order by the Commissioner.

Evidence of such rescission shall be provided by the Respondents to the Division in the following manner

- (a) one (1) copy of the certified check made payable to Ward;
- (b) one (1) copy of the document(s) evidencing delivery of the certified check via certified mail;
- (c) evidence of such rescission shall be provided to the Division not less than fifteen (15) days after the entry of this Order; and
- (d) evidence of such rescission, as set forth above, shall be provided to the Division at the following address: Assistant Commissioner Daphne D. Smith, Securities Division, 6<sup>th</sup> Floor, Davy Crockett Tower, 500 James Robertson Parkway, Nashville, Tennessee 37243

4. The Respondents shall make rescission to Machala, at his address of 391 N. Sheridan, Lennon, Michigan 48449, in the amount of nine thousand three hundred seventy dollars (\$9,375.00). Such rescission by the Respondents shall be made payable to Machala by certified check drawn from an FDIC-insured bank or savings and loan depository and shall be delivered via certified mail to Machala at the address listed above within three (3) business days of the date of the entry of the Order by the Commissioner.

Evidence of such rescission shall be provided by the Respondents to the Division in the following manner:

- (a) one (1) copy of the certified check made payable to Machala;
- (b) one copy of the document(s) evidencing delivery of the certified check via certified mail;
- (c) evidence of such rescission shall be provided to the Division not less than fifteen (15) days after the entry of this Order; and

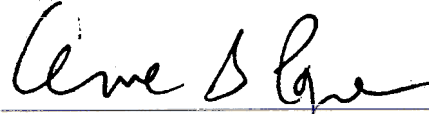
(d) evidence of such rescission, as set forth above, shall be provided to the Division at the following address: Assistant Commissioner Daphne D. Smith, Securities Division, 6<sup>th</sup> Floor, Davy Crockett Tower, 500 James Robertson Parkway, Nashville, Tennessee 37243.

**IT IS FURTHER ORDERED** that this Consent Order represents the complete and final resolution of and discharge of all administrative and civil, claims, demands, actions and causes of action by the Commissioner against the Respondents for violations of the Act which relate specifically to all actions and/or omissions by Respondents which are so described in this Consent Order. This Consent Order shall not be construed to apply to any other facts or circumstances other than to the actions and/or omissions of the Respondents as set forth herein.

This Consent Order is in the public interest and in the best interests of the parties, and represents a compromise and settlement of the controversy between the parties and is for settlement purposes only. By the signatures affixed below, the Respondents affirmatively state that they have freely agreed to the entry of this Consent Order, that they have been advised that they may consult legal counsel in this matter, and have had the opportunity to consult with legal counsel should they have desired to do so, that they waive their right to a hearing on the matters underlying this Consent Order and to a review of the Findings of Fact and Conclusions of Law contained herein, and that no threats or promises of any kind have been made by the Commissioner, the Division, or any agent or representative thereof. The parties, by signing this Consent Order, affirmatively state their agreement to be bound by the terms of this Consent Order and aver that no promises or offers relating to the circumstances described herein, other than the terms of settlement set forth in this Consent Order, are binding upon them

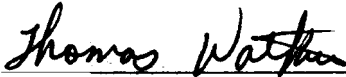
**SO ORDERED.**

Entered this the 17<sup>th</sup> day of August, 2001

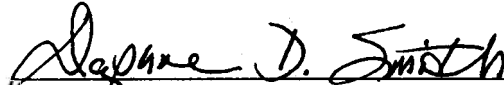


Anne B. Pope, Commissioner  
Department of Commerce and Insurance

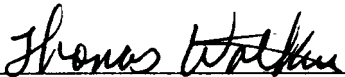
**APPROVED FOR ENTRY:**



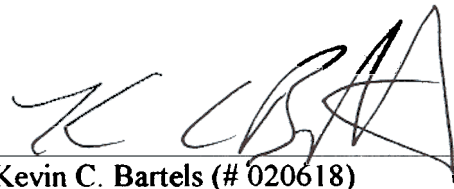
By: Tom WATKINS President  
Title:  
Basin and Oil Gas Corporation  
207 E. Reynolds Road  
Lexington, Kentucky 40517



Daphne D. Smith  
Assistant Commissioner for Securities  
Department of Commerce and Insurance  
500 James Robertson Parkway  
Sixth Floor, Davy Crockett Tower  
Nashville, Tennessee 37243  
615 741 2947



Thomas Watkins  
207 E. Reynolds Road  
Lexington, Kentucky 40517



Kevin C. Bartels (# 020618)  
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312 Eighth Avenue, North  
Twenty-Fifth Floor, Tennessee Tower  
Nashville, Tennessee 37243-0569  
615 741 2199



## CERTIFICATE OF SERVICE

The undersigned hereby certifies that true and correct copies of the foregoing have been served upon the persons listed below by delivering same or posting same in the United States Mail, Certified Mail, Return Receipt Requested:

Charles C. Mihalek, Esq.  
First National Building, Suite 510  
167 W. Main Street  
Lexington, Kentucky 40507

This the 20<sup>th</sup> day of August 2001

  
Kevin C. Bartels  
Certifying Attorney